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February 5, 2003

The Honorable Gary E. Walsh  
Executive Director  
South Carolina Public Service Commission  
Post Office Box 11649  
Columbia, South Carolina 29211-1649

Re: Application of Chem-Nuclear Systems, LLC, etc.  
(SCPSC Docket No. 2000-366-A) (Fiscal Year 2002-2003)

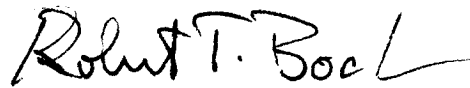
Dear Mr. Walsh:

In accordance with the provisions of Order No. 2002-793, please find enclosed 25 copies of the intended rebuttal testimony of Chem-Nuclear Systems, LLC, a Division of Duratek, Inc., in this proceeding.

By copy of this letter, we have arranged to deliver a copy of Chem-Nuclear's rebuttal testimony to each party of record.

If you have any questions with respect to this matter, please do not hesitate to contact me.

Very truly yours,



Robert T. Bockman

Enclosures

cc: Robert E. Merritt, Esquire (w/enclosure) (By Hand Delivery)  
Hana Pokorna-Williamson, Esquire (w/enclosure) (By Hand Delivery)  
The Honorable C. Earl Hunter (w/enclosure) (By Hand Delivery)  
Frank R. Ellerbe, III, Esquire (w/enclosure) (By Hand Delivery)  
F. David Butler, Esquire (w/enclosure) (By Hand Delivery)

*Rebuttal*  
~~DIRECT~~  
*EAB*

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**DIRECT TESTIMONY**  
**OF**  
**REGAN E. VOIT**  
**FOR**  
**CHEM-NUCLEAR SYSTEMS, LLC,**  
**A DIVISION OF DURATEK, INC.**  
**SCPSC DOCKET NO. 2000-366-A**  
**(for Fiscal Year 2002-2003)**

**Q WHAT ARE THE PURPOSES OF YOUR REBUTTAL TESTIMONY?**

**A.** The purposes of this rebuttal testimony are to comment on and respond to certain portions of Mr. Blume's direct testimony. Chem-Nuclear takes exception to only six items in Mr. Blume's testimony. We accept his recommendations for allowable costs for the other items he presents in his direct testimony. The six items we take exception to are:

1. The treatment of \$42,339 of certain costs we incurred to present our case to the Commission concerning Operating Rights.
2. The treatment of \$247,397 of consultant costs we incurred to contract with an independent party to prepare the Operations Efficiency Plan for our Barnwell disposal operation, as requested by the Commission.
3. One of the two methods Mr. Blume presents for determining allowable labor costs for fiscal year 2002-2003.
4. The recommendation to reduce estimated labors costs by three (3) FTEs.
5. The recommendation to eliminate all indirect exempt labor costs for this hearing as an estimated allowable cost for 2002-2003.

RETURN DATE: *OK*  
SERVICE: *OK (H) per D. Butler*

1           6. The level of insurance costs suggested as allowable for fiscal year 2002-2003.

2   **Q.   WHAT IS YOUR FUNDAMENTAL VIEW OF THE POSITION OF THE**  
3       **COMMISSION STAFF'S TREATMENT OF CERTAIN COSTS CHEM-**  
4       **NUCLEAR INCURRED TO PRESENT ITS CASE TO THE COMMISSION**  
5       **CONCERNING OPERATING RIGHTS?**

6   **A.**   Chem-Nuclear takes exception with the Commission Staff's proposal regarding the  
7       \$42,339 of certain costs for participating in the latest Commission proceeding. The Staff  
8       proposes to move this cost from the allowable costs, thus disallowing recovery of the  
9       statutory 29% operating margin, and move it to the reimbursable category. By proposing  
10      this treatment, the Staff is suggesting that since there is no operating margin recovery for  
11      Operating Rights, there should be no operating margin recovery for the costs incurred to  
12      present our case on Operating Rights to the Commission. Chem-Nuclear believes the  
13      Staff's position is unreasonable.

14           Under the provisions of the Atlantic Interstate Low-Level Radioactive Waste  
15      Compact Implementation Act (Atlantic Compact Act), codified as S.C. Code Ann. Title  
16      48, Chapter 46 (Supp. 2001), allowable costs include the costs of those activities  
17      necessary for "compliance with the license, lease, and regulatory requirements of all  
18      jurisdictional agencies" (§48-46-40(B)(3)(j)). There can be no question that the Public  
19      Service Commission is a jurisdictional agency. Chem-Nuclear complies with the  
20      requirements of the Commission just as we do with other jurisdictional agencies.

21           In the previous proceedings in this Docket, Chem-Nuclear proposed that the  
22      Commission might consider withholding the application of the statutory operating margin  
23      to the allowable cost identified for the intangible assets themselves, which comprise the

1       Operating Rights. Those assets are separate and distinct from the actual costs which the  
2       Company has incurred for activities associated with our preparation of pleadings,  
3       discovery responses, and testimony which is required for proceedings before the  
4       Commission; for the attendance of legal counsel and subpoenaed witnesses for  
5       depositions scheduled by other parties in such proceedings and for the deponents'  
6       preparations for such depositions; and for other procedural activities including settlement  
7       discussions pertaining to the defense of the Company's positions concerning the  
8       identification of Operating Rights as an allowable cost. Many of the costs for which the  
9       Commission Staff proposes its treatment were incurred solely because of the conduct of  
10      discovery by other parties, not because of any action the Company initiated. The other  
11      costs are those routinely allowed by the Commission as part of the revenue requirements  
12      for regulated utilities in ratemaking proceedings as "regulatory commission expenses"  
13      and the utilities are allowed their approved rate of return on those expenses. The  
14      Commission Staff's position is simply inconsistent with that well-accepted treatment.

15           Moreover, in this case, we also incurred some of the expenses at issue in direct  
16      response to the requirements, which the Commission itself imposed. In Commission  
17      Order No. 2001-499, dated June 1, 2001, the Commission directed Chem-Nuclear to  
18      "submit to this Commission specific information and a categorical breakdown on the  
19      items which comprise Operating Rights." (pg. 25). This directive was supported by  
20      Commission Order No. 2001-630, which clarified Order No. 2001-499.

*It was clearly the intent of this Commission to allow  
Chem-Nuclear Systems an additional opportunity to  
develop a "full and complete" record concerning the*

*items which comprise Operating Rights. (pg. 3).*

*Chem-Nuclear Systems should be afforded another opportunity to provide the required specific and categorical information to the Commission. (pg. 4).*

1 Further, the Commission reaffirmed its position “that our holding on the matter in  
2 Order No. 2001-499 was interlocutory, and [that] Chem-Nuclear must provide more  
3 information for our consideration.” (pg. 4). Clearly, Chem-Nuclear was complying with  
4 the Commission’s requirements when we incurred the costs.

5 During the hearing on January 9, 2002, the Commission directed Chem-Nuclear  
6 to submit an Exhibit No. 11. Commissioner Atkins gave the directions for the  
7 preparation of the exhibit.

*I don't want to take your number of 100,000 and  
assume that it's gospel. We need references. I need  
engineering analyses, cost analyses. I need to know if  
it's standard engineering cost, I need to know where  
you got it from. If it's personal communication, I  
need to know where it comes from. (Hearing  
transcript, pg. 450).*

8 In order to comply with the requirements of the Commission, it was necessary for  
9 Chem-Nuclear to have our analyses and intended evidence reviewed by outside

1 consultants and to have the advice and support of legal counsel. Our consultants were  
2 also subjected to depositions. Those actions caused us to incur the \$42,339 in costs. This  
3 cost was not a component of the Operating Rights, but rather a cost incurred to prepare  
4 evidence to the Commission regarding Operating Rights. It is the view of Chem-Nuclear  
5 that the \$42,339 should be considered an allowable cost, and under the provisions of the  
6 Atlantic Compact Act, subject to the statutory operating margin.

7 **Q. THE STAFF HAS PROPOSED THAT THE COMMISSION DENY TREATMENT**  
8 **AS AN ALLOWABLE COST IN THIS PROCEEDING OF SOME, OR ALL, OF**  
9 **THE COSTS WHICH CHEM-NUCLEAR INCURRED FOR PREPARATION OF**  
10 **THE OPERATIONS & EFFICIENCY PLAN (OEP) IN FISCAL YEAR 2002-2003.**  
11 **DO YOU AGREE WITH THAT PROPOSAL?**

12 **A.** No, for several reasons, Chem-Nuclear believes that the Staff's proposal is inappropriate.  
13 We believe that the \$247,397 expense we incurred is clearly an allowable cost for this  
14 proceeding.

15 In the first place, the Staff bases its proposal on its understanding that the OEP  
16 has been "tabled" by "agreement of several parties" to this proceeding. (Staff's prefiled  
17 direct testimony, page 12, lines 13-16). That understanding misrepresents the nature and  
18 substance of the agreement which we reached with the Budget and Control Board, filed  
19 on November 27, 2002, and which the Atlantic Compact Commission has supported in  
20 writing in this case. We proposed and agreed to defer presentation of evidence providing  
21 a substantive review of the numerous and complex issues and recommendations in the  
22 OEP on the basis that none of the parties had had a reasonable opportunity to analyze the  
23 OEP and develop proposals for its implementation for Chem-Nuclear's operations at the

1 Barnwell Facility. Although the OEP was completed and filed in 2002, there simply was  
2 insufficient time for any party to engage in productive review of the numerous and  
3 complex issues prior to the time the Atlantic Compact Act required us to file our  
4 application in this case and before this hearing. We believe that the decisions to promote  
5 full exploration of the issues associated with the OEP and to allow for comprehensive and  
6 collective discussions among interested parties of record, including the Commission  
7 Staff, are prudent ones and that the approach we reached will enable the Commission to  
8 hear and evaluate more meaningful evidence on the issues related to the OEP. We are  
9 hopeful that the collaborative process will ultimately lead to a consensus on  
10 implementation of the OEP.

11 In addition, the OEP itself necessarily included analyses for which our consultants  
12 used estimated data. We are actively collecting, verifying and incorporating actual  
13 information based on our operations to substitute for the estimates in the OEP. That is a  
14 time-consuming process, which we have not yet completed. In the end, however, the use  
15 of actual data will provide a more reliable basis for the parties' and the Commission's  
16 evaluation of the manner in which the recommendations of the OEP might best be  
17 implemented.

18 Moreover, as I shall discuss further in this rebuttal testimony, the OEP has not  
19 been "tabled." Chem-Nuclear and the Staff of the Budget and Control Board are actively  
20 reviewing the OEP, carefully considering its detailed information, and planning for joint  
21 consultations on its data and prospective implementation. We plan to involve the  
22 Commission Staff and the other parties of record in our efforts to explore fully the details  
23 of the OEP and we hope to reach a consensus on the most reasonable way to use the OEP

1 in addressing the most efficient way to organize and manage our work force for our  
2 future operations. I shall also describe the manner in which we are using the “work  
3 breakdown structure” (“WBS”) from the OEP in our Costpoint accounting system and in  
4 our data collection. Our continuing activities do not amount to a “tabling” of the OEP.

5 **Q. ARE THERE OTHER REASONS FOR YOUR OPPOSITION TO THE**  
6 **COMMISSION STAFF’S PROPOSAL?**

7 **A.** Yes. Disallowance of treatment as an allowable cost in this proceeding of the expense we  
8 incurred for the OEP is inconsistent with appropriate regulatory treatment, and with the  
9 Commission’s orders, which required us to incur the expense, and with the Atlantic  
10 Compact Act.

11 Even traditional ratemaking principles for treatment of revenue requirements of a  
12 regulated utility, which are not strictly applicable here because of the provisions of the  
13 Atlantic Compact Act, would not support the disallowance of that expense in this  
14 proceeding, which would fundamentally penalize Chem-Nuclear for complying with the  
15 Commission’s directives. Nowhere in the Staff’s explanation of its position is there any  
16 legal or regulatory basis for its proposal.

17 Chem-Nuclear did exactly what the Commission ordered us to do and we did it  
18 within the time the Commission required. We submitted to the Commission our draft  
19 request for proposals (“RFP”) for preparation of the OEP as the Commission directed.  
20 The Commission formally approved the RFP. We published the RFP, received and  
21 reviewed the responses, and selected Project Time and Cost, Inc., as the contractor to  
22 prepare the OEP. We filed the accepted proposal from the contractor and then filed the  
23 completed OEP on June 26, 2002, prior to the time the Commission established. In that



1 entire process, the Commission did not express anything other than endorsement of our  
2 activities in complying with its order to prepare and file the OEP. In none of its orders,  
3 nor in any other way, did the Commission state or infer that it might consider  
4 disallowance or deferral of the recovery of the costs we incurred to comply with those  
5 orders beyond the fiscal year in which we incurred them or that cost recovery was  
6 contingent upon approval or implementation of the OEP. Nor did the Commission state  
7 that it would consider the implementation in any particular future proceeding; Order No.  
8 2001-499 stated only that the OEP's findings and recommendations would be considered  
9 in "subsequent hearings." (pg. 30).

10 Finally, the Atlantic Compact Act itself justifies treatment and recovery of the  
11 \$247,397 expense for preparation of the OEP as an allowable cost. We incurred the  
12 expense directly for activities necessary to enable us to comply with the requirements,  
13 which the Commission imposed. The Commission Staff's position that would deny that  
14 treatment is inconsistent with the Atlantic Compact Act.

15 **Q. WHAT IS CHEM-NUCLEAR'S POSITION ON THE RECOMMENDATIONS**  
16 **THE COMMISSION STAFF HAS MADE FOR ESTABLISHING ALLOWABLE**  
17 **COSTS FOR ACCOUNT #5111, DIRECT EXEMPT LABOR; ACCOUNT # 5112,**  
18 **DIRECT NON-EXEMPT LABOR; ACCOUNT # 6111, INDIRECT EXEMPT**  
19 **LABOR; AND ACCOUNT #6112, INDIRECT NON-EXEMPT LABOR?**

20 **A.** Chem-Nuclear does not agree with one of the two methods that the Public Service  
21 Commission Staff has recommended to the Commission that would establish allowable  
22 costs in Account #5111, Direct Exempt Labor; Account # 5112, Direct Non-Exempt  
23 Labor; Account # 6111, Indirect Exempt Labor; and Account #6112, Indirect Non-

1 Exempt Labor. The method we oppose is the one in Mr. Blume's testimony on page 19,  
2 line 16 through page 31, line 12, where Mr. Blume describes a method to establish a per  
3 cubic foot labor cost that is dependent on the volume of waste received. This proposed  
4 method is not appropriate for projecting costs accurately for the current fiscal year 2002-  
5 2003 for several reasons.

6 First, it is premature to use the waste-volume-dependent labor cost approach to  
7 make critical decisions about allowable labor for the Barnwell operation because actual  
8 data is not available to validate the rates that Mr. Blume is recommending. A method of  
9 identifying waste-volume-dependent labor costs and, then, establishing a waste-volume-  
10 dependent labor rate might be possible; however, the resulting rate should be based on  
11 actual cost data, not on assumptions that have limited data to back them up. Mr. Blume  
12 uses estimated percentages and ratios of exempt to non-exempt labor from the OEP in his  
13 efforts to establish waste-volume-dependent labor rates, but little data has been collected  
14 that could justify those ratios. As indicated in the OEP, the Activity Based Costing  
15 (ABC) model developed for the OEP is an estimating model. The Executive Summary of  
16 the OEP includes the following statement:

*In cost engineering practices for estimating  
operating cost, it is common to calculate costs at  
both full and reduced levels of production, as  
operational costs are generally not a linear  
function of a production rate. (pg. i-ii).*

1           The method employed in the OEP was to assume a maximum, a most likely, and a  
2           minimum waste volume, which then yielded a range of operating costs. The OEP also  
3           recommends use of the ABC estimating methodology in an annual planning cycle to  
4           allow for actual conditions and updating plans based on current trends.

5           Two preliminary steps are critical to take before a per cubic foot cost for labor or  
6           other costs of operating the Barnwell disposal facility can be established.

7           **Step one:** Develop an activity-based cost model that is structured to collect the costs  
8           associated with each activity or group of activities that are essential for the safe and  
9           compliant performance of the disposal services we offer our customers. We could then  
10          identify the activities that are directly related to waste receipts. Then, when we know the  
11          costs associated with each of those activities, we can make an assessment as to whether  
12          the level of effort for that activity will change in the future based on a projected amount  
13          of waste disposal services. The OEP, which was presented to the Commission in June  
14          2002 as required by Commission Order No. 2001-499, includes a work breakdown  
15          structure that accomplishes this first step for the Barnwell disposal facility. However, the  
16          Commission Staff did not use that work breakdown structure.

17          **Step two:** Track, report and control the actual costs as they occur. We have set up the  
18          new Costpoint accounting system to track, as closely as possible, and to report costs  
19          consistent with activities as identified in the OEP work breakdown structure. At the end  
20          of June 2003, actual cost data for six months will be available for evaluation. We will  
21          then have quantitative data about the labor and other costs associated with the defined  
22          waste-volume-dependent activities. When such facts become available, we would be in a

1 better position to develop a basis for establishing reliable waste-volume-dependent cost  
2 rates as Mr. Blume suggests.

3 If such rates could be established, we would continue to validate those rates  
4 during succeeding periods to ensure the rates accurately project costs for the essential  
5 work activities. The validation is critical. Only such validated rates should be considered  
6 as reliable for use in establishing future allowable costs for disposal operations at  
7 Barnwell. Because that validation is not yet available, the Staff's method did not include  
8 it.

9 Our environmental model for the disposal site was developed in a similar fashion.  
10 We began by establishing a conceptual ground water model. Assumptions were made  
11 about flow rates and direction of flow, and we used those assumptions in the model to  
12 project the movement of groundwater under the disposal site. Then, we collected actual  
13 data from ground water wells to validate whether the model was accurate. The model had  
14 to be adjusted several times to improve the accuracy and reliability of its projections.  
15 When it did accurately project actual results, it was considered valid and useful for  
16 making decisions about the future.

17 **Q. IS THERE ANOTHER REASON WHY A MOVE TO A WASTE-VOLUME-**  
18 **DEPENDENT LABOR RATE APPROACH FOR IDENTIFYING ALLOWABLE**  
19 **COSTS IS NOT APPROPRIATE?**

20 **A.** Yes. Efforts to predict allowable cost rates have not worked well in the past even for  
21 those costs that are most clearly related to the waste packages disposed at the Barnwell  
22 site. The Commission has identified variable cost rates for vaults and trench amortization  
23 since fiscal year 2000-2001. Our experience shows that the rates established varied

1 widely from one year to the next and that the actual costs incurred varied from the costs  
2 projected by such rates.

3 Relating waste volume to costs incurred for disposal of low-level radioactive  
4 waste, and using those relationships to predict future costs in any meaningful way is  
5 difficult at best and probably unreliable unless those relationships have been validated  
6 over some period of time. For example, previous Commission Orders identified rates for  
7 costs associated with disposal vaults and trench amortization (variable cost rates in  
8 dollars per cubic foot) based on waste classification. The following table illustrates the  
9 differences in these variable cost rates and the rates contained in Mr. Blume's testimony:  
10  
11  
12

|   | Class A | Class B | Class C | Slit Trench |
|---|---------|---------|---------|-------------|
| Commission Order                        | \$21.50 | \$23.52 | \$44.21 | --          |
| Commission Order                        | \$18.66 | \$22.61 | \$20.28 | \$124.17    |
| Direct testimony of<br>William P. Blume | \$23.90 | \$24.76 | \$24.13 | \$137.65    |

13  
14 For fiscal year 2000/2001, the projected annual costs using the Commission  
15 ordered rates would have been \$3,208,140. The actual costs, however, were  
16 \$2,686,067—a difference of over \$520,000. For fiscal year 2001/2002, the projected  
17 annual costs using the Commission ordered rates would have been \$1,208,420. The  
18 actual costs were \$1,451,923—a difference of over \$240,000. This data confirms the

1 OEP position that operating costs are generally not a linear function of production rates.  
2 It is clear that a number of factors other than just volume may affect total variable costs.

3 Similarly, without adequate validation with actual cost data, we might expect  
4 other rates that are not as closely identified with waste receipts (semi-variable, or other  
5 waste related costs) to exhibit a relatively large variation from year to year. In my direct  
6 testimony, I explained why such rates have not been effective for predicting the actual  
7 allowable costs for operating the Barnwell site. The fact is that the mix of waste coming  
8 to the Barnwell disposal site is changing from year to year as the marketplace we serve  
9 changes. The mix of waste is a function of relative volumes of class A, B, and C waste  
10 received in a given period, the types of packaging the waste is received in, the radiation  
11 dose rates on the packages, and the rate at which the waste is received. When the waste  
12 mix changes, the level of effort to dispose of that waste changes as well. But the level of  
13 effort and resources required do not change in direct proportion to the volume of waste  
14 received. Volume is not the only variable that affects waste mix, so projections based on  
15 volume alone cannot predict accurate costs for disposal at the Barnwell site.

16 I believe that it would be imprudent for the Commission to rely upon a waste-  
17 volume-dependent rate for establishing allowable labor costs when similar methods have  
18 demonstrated a wide variation from year to year. In addition, we do know that the market  
19 conditions will continue to be dynamic and that the mix of waste will continue to change.  
20 Under these conditions, a rate based on waste volume only will not predict accurately.

21 **Q. IS THERE ANOTHER REASON NOT TO IMPLEMENT A WASTE-VOLUME-**  
22 **DEPENDENT LABOR RATE SUCH AS MR. BLUME PROPOSED?**

1    **A.**    Yes. We are more than half way through the fiscal year for which this Commission is  
2           considering allowable costs. Chem-Nuclear employees are working diligently to compete  
3           in the marketplace for waste volumes that are allowed for receipt in Barnwell by the  
4           Atlantic Compact Act. We need to have the staff in place, with the proper set of skills,  
5           training and experience, ready to receive the waste or it will go elsewhere. That need for  
6           staff readiness requires us to keep a skilled workforce in place. We do not know with  
7           certainty at the beginning of any fiscal year that we will reach the estimated volume  
8           associated with the most likely scenario defined in the OEP. That waste volume was  
9           merely inferred or extrapolated from a “best fit curve” developed from historical data and  
10          projected into the future for purposes of this study. In fact, we should be staffed to reach  
11          the maximum volume allowed and we should aggressively compete for that waste.

12                 However, the Company is not in control of the waste receipts from our customers  
13          because there is strong competition for their waste. Our ability to compete effectively is  
14          diminished to some extent by the fact that we have to adhere to regulated and published  
15          prices established by the Budget and Control Board. Our strongest competitor operates  
16          without regulatory pricing, and therefore can be more responsive to customers, and can  
17          make critical pricing decisions more rapidly than we can. To adopt the methods Mr.  
18          Blume describes at this late date in the year could put the Company at significant risk of  
19          not recovering the costs for the labor we must have ready to receive waste from which the  
20          State of South Carolina will benefit.

21    **Q.    PLEASE CONTINUE.**

22    **A.**    It is very important that Chem-Nuclear retain qualified employees with the required  
23           skills, experience and training necessary to receive waste from multiple customers at the

1 same time they are ready to ship. If inaccurate waste-volume-dependent labor rates are  
2 applied to Chem-Nuclear and the Company is unable to recover labor costs there will be  
3 pressure on the Company to reduce its staff. With reduced staff, the waste will not be able  
4 to be received when our customers are ready to ship and the result will be lower waste  
5 volumes received at the Barnwell facility.

6 The method suggested by Mr. Blume is an over-simplification of a complicated  
7 relationship of variables that impact cost and that impacts the revenues that the State of  
8 South Carolina can expect from the operations of the Barnwell site. On page 20 of his  
9 testimony, Mr. Blume states that the Commission Staff has not done an in-depth review.  
10 Taking time to do an in-depth review of the OEP is important before attempting to use  
11 portions of it to establish labor rates. That review is exactly what we plan to undertake  
12 between now and June 30.

13 **Q. DOES CHEM-NUCLEAR TAKE AN EXCEPTION TO REDUCE THE**  
14 **ESTIMATED LABOR COST BY THREE (3) FULL TIME EQUIVALENTS**  
15 **(FTEs).**

16 **A.** Yes. Mr. Blume's method of using the OEP estimates is based only on FTEs that are not  
17 validated with actual data. It is an inappropriate way to make important labor decisions.  
18 For all the same reasons I discussed earlier, we should not be using the information in the  
19 OEP until it can be validated with actual data. As I discussed, we are collecting data now  
20 that will allow us to validate the OEP projections on FTE requirements.

21 I want to emphasize that the proper and prudent way to make decisions on labor  
22 or other costs at the Barnwell site is to understand the work activities that must be  
23 performed, ensure that they are being done as efficiently as possible and then look



1 forward and evaluate the level of activity that is expected in the future for those activities.  
2 Then we can plan for reductions in labor costs where they make the most sense and  
3 ensure that health, safety, and compliance are not compromised. Estimating a number of  
4 FTEs to perform activities at the Barnwell site produces merely an indication of hours to  
5 perform tasks. That estimate does not take into account the necessity to keep available a  
6 staff with critical work skills, training, and experience to perform those required  
7 activities. Therefore, the estimated number of FTEs may not be the same as the number  
8 of employees required to operate the disposal site and respond to our customer's needs.  
9 Decisions by this Commission concerning allowable labor reductions should be made  
10 only after using actual data and after careful consideration is given to the impact of such  
11 decisions on health, safety, compliance and our ability to respond to customer demands.

12 Because of the inherent difficulty relying solely upon the estimated information in  
13 the OEP, we recommend the Commission identify the allowable costs for total direct  
14 labor which appear in the Staff Exhibit AAA-1, in which the Staff does not use  
15 information from the OEP.

16 **Q. IS CHEM-NUCLEAR RECOMMENDING THAT THE ALLOWABLE COSTS**  
17 **FOR INDIRECT EXEMPT LABOR; AND ACCOUNT #6112, INDIRECT NON-**  
18 **EXEMPT LABOR BE ESTABLISHED WITH THE ALTERNATIVE APPROACH**  
19 **THE COMMISSION STAFF HAS RECOMMENDED?**

20 **A.** No, not completely. We agree with the adjustments that Mr. Blume proposes in his  
21 testimony on page 31, line 13 through page 32, line 7 except for the \$100,343 that he  
22 recommends be eliminated from consideration as an allowable cost. This figure is  
23 associated with indirect exempt labor that will be used to support our participation and

1 position in this hearing. On page 30 of his prefiled testimony, Mr. Blume expresses the  
2 Commission Staff's opinion that future exempt labor costs associated with hearings  
3 before the Commission should be far less than the \$100,343 spent in last year's  
4 proceeding. When Chem-Nuclear submitted this year's application for identification of  
5 allowable costs, there were a number of uncertainties about the extent of this year's  
6 Commission proceeding. Therefore, we assumed costs similar to last year's costs for  
7 indirect exempt labor. At this point, we are optimistic that these costs will be lower than  
8 last year, however, we have already incurred exempt labor costs of over \$20,000  
9 associated with this year's proceeding and we anticipate additional exempt labor costs on  
10 the order of \$15,000 to be incurred this fiscal year. While we are optimistic that these  
11 costs will be lower than the previous year, it would be inappropriate to suggest, as he has  
12 done, that we eliminate the entire amount. Therefore we recommend the Commission  
13 approve an adjustment of \$65,000 instead of the Staff's proposal of \$100,343.

14 Mr. Blume suggests that the Company can apply for the costs in the next fiscal  
15 year after they are incurred. However, that result effectively penalizes the Company  
16 because there is a full year between hearings. As a result, the reimbursement to the  
17 Company for these costs would be delayed for an entire year.

18 **Q. IS CHEM-NUCLEAR USING THE OEP THAT WAS PREPARED FOR THE**  
19 **COMMISSION?**

20 **A.** Yes. As I stated earlier, we have already used the work breakdown structure from the  
21 OEP in setting up the new Costpoint accounting system. In addition, our Company and  
22 the Budget and Control Board Staff prepared a joint statement describing how we plan to  
23 use the information in the OEP during the first half of 2003. That statement was sent to

1 the Commission on November 27, 2002. The statement outlines our plans to use  
2 information from the OEP to better understand the relationship between fixed and  
3 variable costs. If, as a result of further study by interested parties to this proceeding, we  
4 find that there are valid additional waste-volume-dependent costs identified, we will  
5 make recommendations to this Commission about new methods for establishing  
6 allowable costs in future years when the waste volumes are further reduced.

7 **Q. DOES CHEM-NUCLEAR TAKE AN EXCEPTION TO THE AMOUNT OF**  
8 **ALLOWABLE COST THE COMMISSION STAFF IS PROPOSING FOR**  
9 **INSURANCE?**

10 **A.** Yes. Mr. Blume's testimony properly acknowledges the fact that insurance costs have  
11 risen and are likely to continue to rise in the future. However, the \$563,586 he  
12 recommended for an allowable cost in the fiscal year 2002-2003 will not be sufficient to  
13 cover our costs. Based on more current information, we expect insurance costs for fiscal  
14 year 2002-2003 to exceed \$700,000. We are requesting that the allowable cost for  
15 insurance be increased to at least the \$687,248 as we requested in our application.

16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 **A.** Yes.